

City Council Meeting Minutes

**November 25, 2019
Library Meeting Room
951 Spruce Street
2:00 PM**

Call to Order – Mayor Pro Tem Maloney called the meeting to order at 2:00 p.m. The following members were present:

City Council: ***Mayor Ashley Stolzmann (arrived 2:08 pm)***
 Mayor Pro Tem Dennis Maloney
 Councilmember J. Caleb Dickinson (arrived 2:02 pm)
 Councilmember Deborah Fahey
 Councilmember Chris Leh
 Councilmember Jeff Lipton

Staff Present: ***Heather Balser, City Manager***
 Megan Davis, Deputy City Manager
 Kevin Watson, Finance Director
 Kurt Kowar, Public Works Director
 Cory Peterson, Water Resources Engineer
 Megan Pierce, Economic Vitality Director
 Meredyth Muth, City Clerk

DISCUSSION/DIRECTION – WATER TAP FEE CALCULATION & APPROVAL PROCESS

Mayor Pro Tem Maloney opened the meeting.

Director Kowar stated this discussion was prompted by questions from a recent Council meeting. He noted this water tap fee is a City Manager approved fee delegated to the manager to keep the fees up to date with the current price for water. This fee increase was reviewed by the Utility and Finance Committees.

Director Kowar reviewed the City's two water supply sources: South Boulder Creek/Marshall Lake (aka FRICO) and Colorado Big Thompson (CBT)/Windy Gap (WG) from the Western Slope. Having water from two different basins provides redundancy. Water on the market now is generally coming from former agricultural uses and Louisville is in competition for new water rights with all of our surrounding neighbors.

Water coming from South Boulder Creek is distributed to other water sheds as well as Coal Creek which we use. If we buy agricultural water and want to change it to a municipal use that must be approved by the Water Court and we must keep flows up in the other water sheds as well. Currently, there is no infrastructure in place for water from our basin to get to the other basins so there is less of a guarantee we can transfer water uses via water decree. To assure we can get water we will need to build a pipeline but it may not be possible. Therefore even if FRICO purchases are cheaper we may not be able to use it if we can't get Water Court approval.

Director Kowar reviewed the Colorado Big Thompson/Windy Gap (CBT/WG) system. The only constraint on these purchases is our own pipeline from the pump station in North End to our north water plant. There are plans to resolve that pipeline issue.

Windy Gap is a great supplemental water supply. In a wet year it produces a lot of water, however we don't need water in a wet year. CBT/WG users need to build Chimney Hollow reservoir to store the excess WG water in wet years. Chimney Hollow is estimated to be on line in the mid-2020s. He noted CBT/WG water is more expensive than FRICO as it is pumped from the Western Slope.

Director Kowar reviewed the water acquisition considerations including delivery cost, acquisition costs, water court risk, return flow requirements, and other issues. He noted for long-term resales CBT is the better value. Keeping firm yields in both basins helps maintain our redundancy and a firm flow rate.

Director Kowar reviewed the amount of water we have, what we think we need, what the risks/threats are, and what is constraining our ability to use water we have. He reviewed the history of the City's efforts to purchase water starting with the 1979 plan. We currently use the estimate of 7120 acre feet as our annual goal. He reviewed the historical consumption of water by residential, commercial, and other uses. Water usage is going down even as population goes up, however much of that is weather dependent.

Director Kowar noted City departments are charged for their water use; so other City funds pay into the Water Fund for use. Director Watson also noted the Water Fund is an enterprise fund so it must pay for itself. The Water Fund income can only come from the service it provides; this is why we haven't used water fees as a way to give incentives for new businesses. Also, TABOR states any subsidy of over 10 percent coming from another fund means the loss of TABOR status. Loss of that status would mean we cannot bond water funds without a vote of the people.

Director Kowar noted the 2016 Raw Water Master Plan included 6700 acre feet as the recommended goal for firm yield. That is the firm yield goal staff works with today. He added the goal is meant to cover all possibilities and growth. That goal is for best practices for the long term.

Councilmember Lipton asked how this lines up with the Comp Plan. Director Kowar stated it is aligned with the Comp Plan. Councilmember Lipton stated he thought population growth in the Comp Plan was not estimated to go up that much and Council can control things such as landscaping and other options to reduce water use. Director Kowar stated the City can do that, but our current regulations don't require that. Mayor Pro Tem Maloney stated that is a policy decision Council could make.

Mayor Stolzmann stated the Utility Rate Task Force did discuss this, but felt regulations could be an over reach. She added the Council would have to decide how people should use their water and that discussion wasn't where we wanted to go.

Councilmember Lipton stated now with water costing what it does, we should have to address this. There should be ways to incentivize less use.

Mayor Pro Tem Maloney stated it is difficult not to discuss water rates with tap rates. We have a pay as you go system for rates. But with tap fees it is different as it includes the cost of transporting and producing water.

Director Kowar noted the plan is based on 6700 acre feet. Staff follows drought conditions and watches water demand. He noted how water would be affected by a multiple year drought and what options would be available to the City to implement. He added climate change will likely affect all this planning as well as storage and outdoor water usage.

Director Kowar reviewed the model currently used for setting the water use rates and the options the City has for financing options: Pay as you go, debt financing, tap fees; and up-front costs provided by the project.

Director Kowar reviewed finances and how debt affects water rates. More debt may drive rates up too high.

Director Kowar reviewed the tap fee methodology. Equity method: Achieve capital equity between new and existing customers. Assess new customers a fee to approximate the equity or debt-free investment position of current customers. The financial goal is to achieve a level of equity from new customers by collecting a fee representative of the average equity attributable to existing customers.

Incremental Cost Method: New development paying for the incremental cost of the system capacity needed to serve the new development. This approach mitigates the cost impact of new growth on existing customers' user rates. Charge a fee for new customers sufficient to allow customer user rates to be revenue neutral with respect to growth of the system. This includes allowing developers to bring their own water to the table at development time. It would have to be Marshall water or CBT for us to accept it.

He reviewed the cost of water acquisition noting the cost has increased significantly and we are competing against all of our neighbors for the same CBT water.

He reviewed how CBT costs had increased since 2013/14 affected by growth, competition, and infrastructure costs.

In 2013, the city changed the tap fee form to allow people to understand all of the costs. It includes a separate tap fee for irrigation for multifamily and commercial. The current regulations are not perfectly clear on how infill projects pay.

Councilmember Lipton asked how Storage Tek's taps would be credited for a new developer and they wouldn't be credited at today's value. Director Kowar stated people get credit for the volume of water so if they have a 1.5 inch tap and need a 2 inch they only pay the cost of the extra ½ inch. Councilmember Lipton would like that written into policy.

Members discussed how irrigation taps are used and why it makes sense for commercial and multifamily to separate the indoor and outdoor use. Director Kowar added that in a drought year this allows the City to surcharge only outdoor use to encourage water savings.

Director Kowar reviewed a comparison of tap fees to our neighbors. Mayor Pro Tem Maloney asked why some of our neighbors are not taking into consideration increasing costs as we are. Director Kowar stated each municipality does things differently, but he assumes they will need to catch up with everyone else on this.

Councilmember Fahey asked when these prices go into effect and when are they charged to developers. Director Kowar stated everyone gets a three month warning on rate changes. The costs are assessed when they pull their building permits although someone can prepay if they want to.

Councilmember Lipton stated with the lower land costs combined with water still makes it cheaper to build in communities further east. This is a balancing of policies regarding economic development and water costs. Mayor Stolzmann stated we are responding to increased costs; we are not increasing them by choice.

Councilmember Lipton stated he thinks these increased costs might be an anomaly. He would like this fee set on an annual basis. Director Kowar stated staff monitors water all the time and react as we need to. We have not raised them since 2016 but the fee increase in the last six to nine months is driving this increase.

Director Kowar noted the current policy is; Tap fees shall be based on and used for growth related capital expansion costs for water resources, water supply, water storage, transmission, treatment and distribution facilities, and related costs factors. Tap fees shall reflect the City's overall costs incurred to provide services for which the tap is requested and for which the tap is designed.

Councilmember Lipton stated the policy for developers to bring their own water seems to work for other cities. City Manager Balser stated staff is prepared to bring back an ordinance for this to be an option for developers before the fees go into effect. Director Kowar noted it can currently be done by an agreement approved by Council but new legislation would let it happen without Council approval each time.

Mayor Stolzmann asked for public comments.

Jeff Sheets, Koelbel, stated his company is in competition for new users and tap fees are the cost of building a building and those costs flow through to rent costs. It is very, very competitive and it looks like Louisville could be pricing itself out of the market. A tenant will look at the big picture of the cost of rent and that could make you less competitive. All cities are courting the same commercial guys you are trying to get for Louisville. The irrigation tap is expensive as well. Overall it does make Louisville less competitive.

City Manager Balser stated this is one fee of many builders pay. When you compare all of the fees our neighbors charge we are likely still lower. There are fees we don't charge that our neighbors do. The competition piece is real, but this is one small piece of that picture.

Councilmember Lipton would like to be able to communicate what all of our fees are; we need a comprehensive list; need to see the bigger picture so we can compare to other communities.

Councilmember Dickinson agreed we need a big picture look at how we compare to our neighbors. Water needs to be the right price regardless of the other fees, but we need to see the full picture.

Mayor Pro Tem Maloney stated it comes down to how this affects potential development. We need to have an annual rate calculation that can go up or down as appropriate.

Mayor Stolzmann stated in this conversation Council had fiduciary responsibility of the water utility. Other cities have user fees paying for the cost of growth but we have a policy that developers pay for the cost of growth. This would be a big change. If people can bring their own water to the table that will help. We should feel good knowing that when people come in with a new development we will have water for them with infrastructure and water rights. We are planning ahead and running a responsible system. We have to pay for the utility against our real costs. Council can have a different discussion about how the General Fund can help development or rebates from the General Fund, but that should be a separate discussion. The price of water is what it is. Economic Development is a priority, but it shouldn't be mixed with the utility conversation.

Councilmember Leh stated we need to make sure those conversations happen. He would like to have the City put together a comprehensive look at fees and see how we are fair

and not hostile to new economic development. But the utility needs to pay for itself, we have no other option. This is a separate conversation we need to have.

Councilmember Dickinson stated he understands the cost of water is the cost of water so we need to figure out the right amount. That makes sense. However, we need to be agile and need to reduce the costs if water costs go down and should look at it more often to adjust it if needed. We also need to find other areas in which to be more aggressive with economic incentives.

Mayor Pro Tem Maloney proposed Council should take no action now so the fees take effect in January, but we need to be sure staff is recalculating the fees annually. He would like further discussion of how this affects our competitiveness with other communities and all of the other fees we and they are charging so we know where we fit. Councilmember Fahey agreed. Mayor Stolzmann stated Mayor Pro Tem Maloney's proposal will be the direction to staff.

Members discussed future items for discussion.

ADJOURN

Members adjourned at 4:21 pm.

Ashley Stolzmann, Mayor

Meredyth Muth, City Clerk